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Chapter 10

Game Change in EU social policy: towards more European Integration[1]

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1. Introduction

Welfare states have been under pressure during recent decades, in the wake of challenges such as ageing populations and changing family patterns. To support member states in their welfare and labour market reforms in the context of Economic and Monetary Union (EMU), the European Union (EU) developed soft policy advice and comparative knowledge through various open methods of coordination (OMC). While there is dispute about the OMCs' impact (de la Porte and Pochet 2012), it is an ideational tool that is not intrusive, since member states (MS) can voluntarily use ideas or knowledge emanating from the EU. In the context of the ongoing global financial crisis and the sovereign debt crisis which followed in Europe, EU actors have sought to increase coherence between economic and fiscal policies in an attempt to restore financial stability in the Eurozone. This involves altered and new instruments for social and labour market policy governance being determined almost entirely by economically oriented actors. Alsothe socially oriented actors are now considering new ideas around social and labour market policy coordination, but through less powerful instruments. Thus far, no systematic comparison has been made of these instruments, which is necessary in view of their potential impact on welfare states.

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This chapter provides a comparison of selected EU instruments for economic and social policy coordination before and after the onset of the sovereign debt crisis. It analyses the direct and indirect effects that selected instruments may have on national welfare reforms by developing a typology to capture their type and degree of 'integration' effect. The analysis of integration of various EU instruments on national social and labour market policy is important, since these are areas where MS are still formally sovereign, or at least semi-sovereign (Ferrera 2005) and intrusion (through increased integration effects) into these areas would raise questions of democratic legitimacy (Scharpf 2011; Streeck 2011). We argue in this chapter that the altered and new instruments potentially have a more integrative effect (and potentially also more intrusive in extreme cases) on national welfare states and labour markets than the pre-crisis instruments.

2. Conceptualisation of Integration

We develop a typology of 'integration' along three dimensions (interference, surveillance, coercion) to capture how a particular instrument may affect national policy, directly or indirectly. In our typology (Table 10.1), four degrees of integration (from low to very high) are suggested for each dimension. In the empirical analysis that follows, we consider the balance of actors involved in each instrument along our three dimensions, that is, in devising policy aims (which could involve more or less interference in MS policies), in the surveillance process and/or in ensuring coercion. Based on our insights into the different processes, we argue that including employment and social policy actors (or other issue-specific actors) within a policy process provides a more comprehensive approach, compared to processes driven exclusively or mainly by actors in economic and financial affairs.

Table 10.1 Typology of 'integration'

Dimension of integration	*Degree of integration*			
	Low	Medium	High	Very high

Interference *NB. This may differ according to the type of welfare state (and policy area)*	Uncontroversial objectives, not challenging existent MS policies or institutional arrangements, merely suggesting some minor adjustments in a particular policy area.	Objectives challenging some existing policies, but not the underlying institutional structure of a policy area.	Objectives requiring comprehensive policy reform with the potential for undermining the existing institutional structure and fundamental principles of a policy area.	Objectives requiring far-reaching structural policy reform with a high potential for undermining the existing institutional structure and for changing the fundamental principles of a policy area.
Surveillance	Infrequent *ex-post* EU surveillance of national policy reports.	Frequent *ex-post* surveillance of national reports that specify policy which should meet common benchmarks and/or own national targets.	Regular *ex-ante* and *ex-post* EU surveillance of national policy reports. MS are held accountable to EU benchmarks and are required to specify national targets and action plan to meet these.	Frequent *ex-ante* and *ex-post* EU surveillance of national policy reports. MS are held accountable to their own policies (which must aim to meet European targets and/or policy).
Coercion	'Naming and shaming' and/or soft recommendations (with a weak treaty base).	Strong treaty-based recommendations, but no sanctions.	Treaty-based recommendations and ultimately financial sanctions in the case of non-compliance.	Treaty-based corrective action and/or conditionality in order to receive financial assistance.

Source: Own conceptualisation

The first dimension of integration is interference in national policy, that is, the extent to which the EU interferes in MS sovereignty in labour market and social policy – where EU competencies are marginal – by requiring policy changes in these areas. This may lead to controversy about, or resistance against, the EU policy intervention at national level among populations and/or among political elites. In other words, interference assesses the extent to which an EU measure meddles with existing welfare state arrangements. There are some areas which all MS would regard as interference, such as EU intervention in taxation or wage policy. Other issues, e.g. childcare policies, may be considered to be interfering in some MS, such as the familialistic southern European welfare states.

The second dimension of integration is the surveillance of national policy by EU actors (Rodrigues 2002), which addresses the extent to which the EU is endowed with power to control whether MS are implementing the agreed policies and respecting or moving towards EU benchmarks and/or national targets. The strength of surveillance is, on the one hand, indicated by the frequency of surveillance as a marker of the genuine level of policy monitoring. On the other hand, it is also important which EU actors are involved in a particular surveillance process. Some EU actors, namely economic and financial actors, operate in areas where the EU has strong jurisdiction, in particular policy coordination around the Maastricht criteria (3% budget deficit and 60% public debt), so that surveillance is based on hard law. These actors have more power than others, such as employment and social affairs actors, where the EU has only weak legislative competence. Contingent factors like exogenous shocks or political party majorities in the Council may also influence the involvement of various EU actors. Social policy, social cohesion and quality in work were high on the agenda when there were a majority of left-leaning governments in the EU (see de la Porte, 2011).

The third dimension of integration is coercion, referring to the type of measures EU actors have at their disposal to ensure corrective action in the case of non-compliance or deviation from EU policy. The strongest form of coercion is financial conditionality, such as in a Memorandum of Understanding. Other forms include political sanctions, which could in the most extreme cases refer to exclusion from particular aspects of EU integration, such as EMU. This option, however, is not seen as viable among the European elites, due to the fear that it would lead to a domino effect and ultimately the dismantling of EMU (Scharpf 2011). Softer forms of political sanctioning may involve brandishing of a MS as a bad performer in a benchmarking process. Depending on political culture, some countries may be more sensitive to such 'naming and shaming' than others (Barbier 2008). Other types of coercion include country-specific policy recommendations or softer policy advice in overall performance assessments. In assessing coercion, it is important to take account of the institutional power balance between European institutions and MS. For example, if a Qualified Majority Vote (QMV) in the Council is necessary to impose a sanction, this means that MS have more leverage than European actors.By contrast, a Reverse Qualified Majority Vote (RQMV) gives more power to the European Commission, because a qualified majority of MS would need to agree not to implement a sanction.

This typology is used to analyse EU governance instruments affecting social and labour market policy before and after the onset of the 2008 financial crisis. We distinguish between two types of instruments affecting social and labour market policy. These are firstly, instruments aimed at the sustainability of public finances, but which put indirect pressure on welfare state policies, and secondly, instruments that aim at re-calibrating social and labour market policy. Recalibration refers, firstly, to developing new policies in line with new circumstances, such as childcare institutions to ensure cognitive development of children and to facilitate female labour market participation, central in the social investment paradigm. Social investment refers to investment in the capabilities of individuals throughout the life-course to have high rates of labour market participation, and in order to ensure that welfare states are socially and economically sustainable (Morel et al. 2012). Secondly, it refers to adapting existing arrangements in order for particular programmes to meet their original aims, such as sickness insurance (Pierson 2001).

3. The Stability and Growth Pact (SGP) for Fiscal Consolidation

The SGP Before the Crisis

European Integration took on an entirely new turn with the Maastricht Treaty (1991), which institutionalised EMU. Monetary policy was pooled at EU level, with the independent ECB as the key player, setting the interest rate based on the average performance of EMU economies. EMU also deprived MS of the ability to adjust exchange rates in response to economic problems. The belief was that a common monetarist policy would have an integrative effect with positive spill-over effects from monetary to economic policy and eventually to other areas, such as social policy (Scharpf 2002; 2011; Degryse 2012).

The micro-foundations of monetarism lie in neo-classical economic theory and are associated with various supply-side policy solutions, such as tax cuts, privatisation, liberalisation and de-regulation. Formally, the ECB does not have the power to propose such policies (Scharpf 2011). Nevertheless, social policy came under pressure via the fiscal consolidation aims, necessary for the establishment and functioning of the the EMU. As a consequence, public expenditure – of which pensions and health care are important components – became the object of close European scrutiny.

EMU governance pre-crisis consisted of strict legally binding fiscal monitoring of MS by the European Commission and the Council of Ministers through policy coordination in the SGP that stipulated a maximum limit for budget deficits of 3 per cent GDP, and public debt of maximum 60 per cent GDP (or falling). The ‘preventative arm’ of the SGP prescribes the measures for sound fiscal policies. Before the crisis, MS had to annually submit their medium-term budgetary plans in stability programmes (Eurozone members) or convergence programmes (members outside of the Eurozone), to illustrate their efforts with regard to the objectives of the SGP.

A second ‘corrective arm’ of the SGP prescribed ‘hard’ remedial action through an ‘Excessive Deficit Procedure’ (EDP) in case the 3 per cent budget deficit criterion was violated. The public debt level – at maximum 60 per cent GDP or falling – was ‘unavoidably imprecise’ and thereby non-sanctionable (Hodson and Maher 2004: 801). If corrective action under the EDP remained absent after multiple warnings, the Commission and the Council could issue a pecuniary fine for Eurozone members and, for all countries, the possible suspension of support from the Cohesion Fund until the excessive deficit was corrected (Degryse 2012).

The *interference* of the SGP with MS policies was *high* – sound fiscal policies were a pre-condition for EMU membership, which required strict discipline with regard to the set ceiling for government deficit that had to be respected permanently among Eurozone members. For some countries, such as Germany, this initially posed only little pressure, since the EMU was developed on the basis of the German model, consisting of a centralised monetary policy and with it, a central bank. In other countries eager to join the EMU from the outset, such as Spain, Portugal or Italy, a series of reforms was undertaken to meet the entry criteria of the SGP. In particular, tri-partite social pacts were agreed on fiscal and labour market policy to enhance competitiveness (Fajertag and Pochet 2000).

EU *surveillance* via the SGP was *medium* – fiscal surveillance took place annually and was overseen by the Directorate-General for Economic and Financial Affairs (DG ECFIN) and the Economic and Financial Affairs Council (Ecofin), with a treaty base for their activity. *Coercion* was formally high, as non-compliance with the budget deficit criterion could lead to an EDP that required corrective action and in the event of continued non-compliance, the Council could impose financial sanctions. However, in order to issue country-specific recommendations or an EDP, a qualified majority of MS needed to be in favour of this. In practice, the SGP has proven to be non-enforceable against big MS such as Germany and France, which were drivers of its creation, yet both ran excessive deficits after the SGP came into force and were under the EDP for some years (Howarth 2007). In fact, of the then 27 EU members, 13 have been under the EDP before the onset of the crisis in 2008 (Table 10.2).

Table 10.2 Excessive Deficit Procedures starting before 2008

MS	**EDP period**

Czech Republic	2004–2008
Cyprus	2004–2006
France	2003–2007
Germany	2002–2007
Greece	2004–2007
Hungary	2004–2013
Italy	2005–2008
Malta	2004–2007
Netherlands	2004–2005
Poland	2004–2008
Portugal	2002– 2004; 2005–2008
Slovakia	2004–2008
United Kingdom	2004 and 2005–2007

Source: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm (last accessed 30 May 2013)

The members aiming to be members of EMU show efforts to meet convergence criteria in their convergence programmes, while full EMU members show how they continue to meet the criteria or in the case of an EDP, how they plan to correct the breach of the deficit criterion to meet the deadline set by the Commission for this. Most countries then adopted policies to reconsolidate public finances, which the European Commission closely monitored, in collaboration with Finance Ministries (see de la Porte and Natali, 2014 for a recent case study). In some cases, more time was given to consolidate public finances, so the period for surveillance was extended. In yet other cases, policies required to comply with the convergence criteria were not adopted and the fiscal situation did not improve. But even when that was the case, financial sanctions were not levied. The Ecofin Council was reluctant to trigger sanctions against MS, but at the time, markets did not react adversely to the inaction of Ecofin.

There were limitations to SGP since the bigger Member States had some political room for manouevure: when Germany and France, did not fulfill their obligations under their respective EDPs, the Commisison's recommendations to step up the EDPs were vetoed in the Council. Following pressure from Germany and France, in 2005 the SGP was altered, to take due account of public investments that would bear success in the future. The SGP had thus been criticised for its weak enforcement of the deficit rule, as well as the neglect of the debt criterion (de Haan et al. 2004). Hodson and Maher (2004: 809) argued that the SGP has from the outset been a highly discretionary instrument in the realm of soft law. On the basis of the capability of some member states to negotiate whether and if so when and how to meet the excessive deficit criterion, we assess that *coercion* was *de facto* only *medium*.

The SGP since the Crisis

Since the 2008 global financial crisis and the sovereign debt crisis which followed in Europe, EU actors (especially the ECB, DG ECFIN and the Ecofin Council) have sought to increase coherence between economic, financial and fiscal policies, in an attempt to restore financial stability in the Eurozone. In addition, efforts have been made to enhance both *ex-ante* and *ex-post* surveillance of policies and to increase coercion, especially increasing possibilities for sanctions in case of deviation from agreed policies or benchmarks. The revised SGP and new instruments are coordinated jointly in the 'European Semester', which includes first and foremost policies of fiscal consolidation and, at the very end of the list, policies for social sustainability of European welfare states. In the following, we present the core features of the European Semester and central instruments – the Fiscal Compact (FC) and the six-pack – within it. Thereafter, we present the Europe 2020 strategy – also integrated into the European Semester – with an emphasis on its social policy aims.

Instruments for Sustainability of Public Finances (2008–present)

In 2010, the European Semester was developed in order to coordinate *ex ante* the budgetary and economic policies of MS and to increase coherence among different policies. More specifically, EU-level discussions take place prior to MS drawing up their annual draft budgets *and* on a broader palette of policy areas (with accompanying indicators), including macroeconomic imbalances, financial sector issues, and structural reforms. The European Semester is launched by the European Commission (DG ECFIN) via an Annual Growth Survey (AGS) (European Commission 2013d). The 2011 AGS, for example, focused on fiscal consolidation, labour market reforms, and 'growth enhancing measures' (European Commission 2010g). Following the AGS, country-specific recommendations are made to MS on the basis of a DG ECFIN proposal that must be approved by Ecofin through QMV and is then to be endorsed by the European Council. The AGS explicitly includes policy advice on 'social consequences of the crisis', with a focus on how to deal with the citizens hit by the crisis, in particular young people. In this regard, the AGS promotes active labour market policies, such as job search or training, as a way back to employment, with social protection systems as a last resort. In addition, the AGS promotes business creation and self-employment, although in particular the latter can be very precarious in a crisis context. The policy priorities decided in the AGS should be included in MS Stability or Convergence programmes (concerning monetary policy) devised within the SGP and in NRPs (concerning economic, employment and social policies) devised within Europe 2020. The European Semester and the AGS are therefore very powerful for the agenda-setting process.

The six-pack and the FC aim to reinforce the policy aims of the European Semester and to enhance EU surveillance of MS policies and coercion in the case of non-compliance. Both initiatives provide the European institutions with more surveillance power vis-à-vis the national budgets of MS compared to pre-crisis and are designed to reinforce the implementation of the SGP and the European Semester within which they are embedded.

The six-pack came into force in December 2011 (consisting of five Regulations and one Directive)[2] and applies to all 27 MS, but with some specific rules for Eurozone members,

[2] The six parts are the: (1) strengthening surveillance of budgetary positions and coordination of economic policies, (2) acceleration and clarification of the EDP through a Council regulation, (3) enforcement of budgetary

especially regarding financial sanctions. The six-pack covers not only fiscal, but also macroeconomic surveillance under the new 'Macroeconomic Imbalance Procedure' (MIP), which aims to be more broad-ranging than the former SGP which focused only on public finances. Under the six-pack, member states' budget balance should converge towards country-specific Medium-Term Objectives (MTOs) (relating to the SGP's preventative arm). Stricter application of fiscal rules shouldbe ensured by defining quantitatively what a 'significant deviation' from the MTO, or the adjustment path towards it, means. The six-pack also reinforces the corrective arm of the SGP, that is, the EDP, which applies to MS that have breached either the deficit *or* the debt criterion (the latter not being operational before the six-pack). Another important novelty is that the six-pack introduces RQMV for deciding on sanctions. This means that a qualified majority of MS (in Ecofin) must be against a Commission (DG ECFIN) proposal for an EDP, or for a sanction to be overturned. This constitutes a very clear increase in power for the European Commission, especially DG ECFIN.

The FC, signed in March 2012 by all EU members except the Czech Republic and the United Kingdom, applies to all Eurozone members and, upon their discretion, also to non-Eurozone countries. It further strengthens the balanced budget rules of the SGP, with an additional limit of 0.5 per cent of GDP on structural deficits (that can be extended to 1 per cent in exceptional circumstances). The FC requires these budget rules to be integrated in national law, preferably at constitutional level. Corrective mechanisms at national level will be triggered automatically in case of deviation from the MTO or the adjustment path towards it. Likewise, the automatism of the EDP has been strengthened. Should a country fail to transpose the budget rules and the correction mechanism on time, the European Court of Justice has the jurisdiction to take a decision on the matter, including the imposition of a financial sanction (up to 0.1 per cent of GDP) (European Central Bank 2012: 83).

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surveillance in the Eurozone through a regulation, (4) definition of a budgetary framework of the MS through a Directive, (5) prevention and correction of macroeconomic imbalances through a regulation, (6) enforcement of measures for correcting excessive macroeconomic imbalances in the Eurozone.

Contrasting with the pre-crisis period, the European Semester now takes account of the whole economy via the MIP, and not just budget deficits and public debt. This is because it became clear to European actors that taking account of budgetary discipline alone would not suffice for economic growth or crisis prevention. The MIP thus focuses on total (public and private) debt, current account balances, unit labour costs, real effective exchange rates and other indicators that cover overall national economic performance. While this is designed to ensure early intervention in economies which are overheating, most of the indicators of the MIP are not under direct control of governments (Scharpf 2011: 33). Since the MIP is the central instrument on which European actors formulate national recommendations and, more crucially, launch an EDP in the case of non-compliance, *interference* in MS policies is *high*, as controversial structural adjustments are suggested following the MIP, including the privatisation of public services, labour market flexibilisation, tax reforms, liberalisation of product and service markets as well as social spending cuts (DG ECFIN 2012).

Surveillance is also reinforced – it is very frequent when a country is under EDP – and coercion is high – an interest-bearing deposit of 0.2 per cent of GDP may be imposed if insufficient progress is made towards the MTOs of Eurozone MS (European Parliament and European Council 2011). Thus sanctions can be implemented quite early on if certain targets are missed.

Table 10.3 Excessive Deficit Procedures started after 2008

MS	**EDP period**
Austria	2009–ongoing
Belgium	2009–ongoing (EDP recommended to be stepped up in 05/2013)
Bulgaria	2010–2012
Czech Republic	2009–recommended to be

	abrogated in 05/2013
Cyprus	2010-ongoing (under MoU)
Denmark	2010-ongoing
Finland	2010-2011
France	2009–ongoing
Germany	2009-2012
Greece	2009–ongoing (under MoU)
Ireland	2009-ongoing (under MoU)
Italy	2009-2013
Latvia	2009-2013
Lithuania	2009-2013
Luxembourg	2010
Malta	2009-2012; new EDP recommended in 05/2013
Netherlands	2009-ongoing
Poland	2009-ongoing
Portugal	2009-ongoing (under MoU)
Romania	2009-2013
Slovakia	2009-ongoing
Slovenia	2009-ongoing
Spain	2009-ongoing
United Kingdom	2008-ongoing

Source: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm

Table 10.3 shows a notable increase in the number of countries under an EDP since the financial and economic crisis set in (from 13 to 24). At the time of writing, it remains to be seen to what extent this is followed by stricter action than in the pre-crisis period. It has to be noted, however, that the if economic circumstances are adverse, recommendation to reduce the deficit are prolonged or even stopped temporarily, as long as effective action (recommended policies) has been taken. On this basis, in May 2013 six countries were granted an extension to rectify their deficits (European Commission 2013e: 6–7).

There is no doubt that for countries which are under special EU-IMF financial rescue packages (Greece, Ireland, Portugal and Cyprus) EU integration, through conditional financial support (EU-IMF loans) in exchange for structural reform, has increased to very high levels. Memoranda of Understanding (MoUs) specify in detail the policy measures that have to be implemented, often highly interfering with existing institutional designs. Monitoring takes place very frequently under MoUs.

4. Instruments for Re-calibrating Social and Labour Market Policy

Before the Crisis: The European Employment Strategy (EES) and the Lisbon Strategy

The policy coordination stipulated by the SGP gave rise to concerns about the limitations to MS autonomy in core redistributive areas. A political consensus among left parties in the Council in the mid-1990s led to an agreement on supplementing monetary and economic policy coordination with a similar, albeit softer, coordination procedure for social and labour market policies: the European Employment Strategy (EES), the first ‘Open Method of Coordination’ (OMC) (de la Porte 2011). The OMC became an important instrument to support MS in welfare state reform, in the view of common challenges, such as population ageing (Jæger and Kvist 2003) and built on ideas of ‘social investment’ (Morel et al. 2012).

The aim of the EES – integrated in the Amsterdam Treaty of 1997 – was to develop a highly skilled labour force and to achieve high levels of employment. The ambition was to create ‘more and better jobs’, hence not only boosting employment growth, but also maximising its quality with a view to shaping a competitive, knowledge-based economy. The policies initially promoted in the EES (and later in other social OMCs) resonate with the normative notion of a ‘European Social Model’ (Jepsen and Serrano Pascual 2005), associated with a high level of social protection and high rates of labour market participation. Activation, ‘making work pay’, and quality of work were key notions. The promotion of equal opportunities between men and women was also central, including the aim to develop childcare institutions. The EES was, however, subordinate to the monetarist policy framework established via the EMU. Since the EES – requiring considerable financial investments – was to be implemented in the context of the EMU – requiring fiscal consolidation – the inherent risk was that comprehensive social investment would not materialise (de la Porte and Jacobsson 2012).

The EES was nevertheless considered an appropriate way to address common challenges, while being adaptable to different welfare state types. On this basis, the Lisbon European Council in 2000 institutionalised the OMC as a voluntary non-treaty based mechanism for MS to confront common challenges in sensitive areas. The codified 'Lisbon Strategy' aimed to put economic policy and competitiveness on an equal footing with employment and social policy (European Council 2000). This included the EU benchmark of reaching an average employment rate of 70 per cent for the EU by 2010 (and 60 per cent for women as well as 50 per cent for older workers) (European Council 2000, 2001). There were high hopes that the Lisbon Strategy – strengthened with quantitative benchmarks – would be an effective vehicle for achieving activation, training, and high levels of (quality) employment.

The EES represented a *medium* degree of *interference* into national policies because of its promotion of high employment rates as well as family-friendly and activation policies. Particular pressure was put on countries with low rates of female and older worker participation. Furthermore, it also included more sensitive issues, such as the reduction of non-wage labour costs, and flexicurity – the combination of flexible labour markets, activation and social security – which was resisted by many unions who feared that it would be interpreted exclusively as labour market flexibility (Viebrock and Clasen 2009). Indeed, empirical evidence suggests that in countries that have caught on to the flexicurity buzzword, there has been most focus on labour market de-regulation. After 2005, the EES became more narrowly focused on boosting labour supply, skills enhancement and the improvement of education systems. The aims relating to gender equality and reconciling work and family life were put in the background. Impact analyses of the EES have revealed that activation as conceived in the EES has been influential discursively, but has only marginally been used as a resource through which to develop a comprehensive social investment policy, albeit with important cross-regime variation (de la Porte and Jacobsson 2012).

The *surveillance* in the EES was *low* for several reasons. First, although the EES has a treaty base, it is a voluntary policy coordination process. All MS participate in the process, but the extent to which they actually meet EES objectives is, ultimately, voluntary. The iterative policy cycle consists of setting common EU objectives (further specified by common benchmarks and EU indicators); regular National Action Plans (NAPs), designed to show what MS had done to meet employment policy objectives and to present their future plans in light of EES objectives; and monitoring and evaluation of these strategies jointly by the European Commission and the MS. The process was yearly until 2005, after which NAPs became more closely integrated with economic policy coordination in three-yearly National Reform Programmes (NRPs).

The Lisbon European Council strengthened the Employment and Social Affairs Council, since it aimed to put various Council formations on an equal footing with the Ecofin Council. This equally implied that the Directorate-General Employment, Social Affairs and Inclusion (DG EMPL) was strengthened vis-à-vis DG ECFIN (Rodrigues 2002). After 2005, however, when the EES became more strongly integrated with economic policy coordination (de Roose et al. 2008), the influence of DG ECFIN and the Ecofin Council increased. At the same time, a 'Mr. or Mrs. Lisbon' – often a Prime Minister or Finance Minister – was designated in each MS to ensure that the objectives of the Lisbon Strategy were integrated in national political processes, with mixed results (Borras and Peters 2011). Although economic and employment policy were coordinated jointly after 2005, surveillance remained low (de Roose et al. 2008).

Coercion of the EES was also *low*. Since 1998, the EES has involved country-specific recommendations, to be approved via QMV in the Council. However, compliance with the policy objectives, highlighted in country recommendations, was encouraged, but could not be enforced (de la Porte 2011). Indeed, the thought behind the social OMCs was that they should prompt transnational discussions and propose interesting ideas in a context where MS would be required to reform their welfare states due to common challenges. There is evidence that the ideas developed through the OMCs, and especially via the country-specific recommendations have at times been sources of inspiration for reforms (de la Porte and Jacobsson 2012). Yet, the EES only provided a legally non-binding framework of political coordination, leaving responsibility for reforms with MS.

Instruments for Re-calibrating Social Policy since the crisis: Europe 2020

In 2010, a new strategy coined ‘Europe 2020’ replaced the Lisbon Strategy, within which the instruments for re-calibrating social policy – in particular the EES – are now embedded. In the EU’s revamped strategy to deliver ‘smart, sustainable and inclusive’ growth, the aim to increase labour market participation – to 75 per cent by 2020 – stands stronger than ever (EU Commission 2010b). The link with the SGP is much closer as well, since Europe 2020 is integrated into the European Semester. The assessment of the cause of the crisis by European economic elites and technocrats is that some countries have not paid sufficient attention to structural reforms. The main aim stipulated is therefore to undertake structural reforms ‘of pensions, health care, social protection and education systems (…) in order to achieve ‘fiscal consolidation and long-term financial sustainability’ (European Commission 2010h: 26).

Also, Europe 2020 is dominated by DG ECFIN and the Ecofin Council with a very marginal role for the European social policy actors (Pochet 2010). Europe 2020 is, aside re-iterating core aims of fiscal consolidation as stated in the SGP, designed to deliver growth, if possible, socially sustainable growth. However, as noted by Barnard (2012), this strategy is dependent on significant government expenditure, which governments encumbered by sovereign debt are hardly able to provide.

Although there have been remarkable increases in employment rates since the launch of the Lisbon Strategy, this was for the most part achieved through atypical contracts, providing little security for workers (Emmenegger et al. 2012). Unsurprisingly, atypical workers have been hit first by the crisis. Where employment has started to pick up again, we find a remarkably high proportion of non-standard contracts (Leschke 2012). Contrary to the optimistic social agenda that characterised the original Lisbon Strategy, Europe 2020 is silent on the previously prominent issue of quality of work. However, on a more positive note, the European Commission has now launched a Social Investment Package, aimed at investing in individuals throughout the lifecourse, particularly focused on human capital development (European Commission, 2013).

The potential integrative effect of Europe 2020 is the same as under the EES and much weaker as regards all three dimensions than the new fiscal policy instruments (Table 10.4). Only where Europe 2020 overlaps with the revised SGP is EU integration enhanced, as the FC and the six-pack clearly strengthens the European actors (especially DG ECFIN) to survey MS policies and economic indicators, as well as ensure coercion, since an EDP is now easier to launch and sanctions are easier to impose through RQMV in the case of non-compliance.

Table 10.4 Integration effects of main EU fiscal and social instruments before and after the crisis

	Interference	Surveillance	Coercion
SGP (pre-crisis)	High	Medium	Medium
EES	Medium	Low	Low
Six-pack and FC	High	High	High
Europe 2020	Medium	Low	Low

In sum, the European Semester and the instruments designed to reinforce it are highly intrusive on the dimensions of policy interference, surveillance and coercion. Both the six-pack and the FC really give the European Semester and the SGP bite, which was not the case before the crisis. It is also to be noted that in the context of the crisis, it is mainly the actors in economic and financial affairs that set the agenda, while the labour market and social policy actors have less voice. However, there are attempts to develop a social investment policy approach among the socially oriented actors in the Commission (Kvist 2013; European Commission, 2013).

5. Conclusion

Our analysis has shown that in the perpetuation of economic difficulties in the EU, European leaders have strengthened the existing European instruments and developed new ones to enhance compliance with EU economic and financial aims, which also affect welfare states indirectly. In the context of the crisis, it is along the dimensions of surveillance and coercion that integration effects of EU instruments for economic and financial policy coordination – European Semester, Stability and Growth Pack, the six-pack and the fiscal compact - has increased. The sharpened old and new instruments have increased the power of the EU, especially the economically oriented actors, to insist on national fiscal discipline, a necessary condition for the Eurozone to function. Indeed, if the instruments are applied correctly, then European economies should beome more competitive and welfare states would be reformed around social investment. But there are risks that tough austerity and the cost containment that has accompanied this undermines European welfare states.

The instruments designed to coordinate employment, social and labour market policy – that is Europe 2020 and especially the European employment strategy - are not sharper compared to before the crisis. While there are attempts to tackle youth unemployment and to encourage social investment policies, particularly in DG employment and the social affairs and employment Council, the available instruments are unlikely to have much impact on MS. This is particularly the case where most governments are still struggling to cope with recession, public debt and budget deficits and thus lacking the resources to develop comprehensive social investment policies.